

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Nanci E. Langley, Vice Chairman;  
Mark Acton; and  
Robert G. Taub

Market Test of Experimental Product—  
Every Door Direct Mail Retail

Docket No. MT2011-3

ORDER GRANTING REQUEST FOR EXEMPTION  
FROM ANNUAL REVENUE LIMITATION

(Issued January 23, 2012)

I. INTRODUCTION

Pursuant to 39 U.S.C. § 3641, the Postal Service requests an exemption from the \$10,000,000 annual (fiscal year) revenue limitation of its test of experimental market dominant product, Every Door Direct Mail Retail (EDDM-R).<sup>1</sup> The Commission approved the market test pursuant to 39 U.S.C. § 3641 on March 1, 2011.<sup>2</sup> The Postal Service commenced the market test on March 31, 2011. Request at 2.

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<sup>1</sup> Request of the United States Postal Service for Exemption from Revenue Limitation on Market Test of Experimental Product—Every Door Direct Mail Retail, November 18, 2011 (Request). The product was originally named Marketing Mail Made Easy, but was renamed Every Door Direct Mail Retail (EDDM-R). *Id.* at 1.

<sup>2</sup> Order Approving Market Test of Experimental Product—Marketing Mail Made Easy, March 1, 2011 (Order No. 687).

On November 23, 2011, the Commission issued a notice and order appointing the Public Representative and providing an opportunity for comments by interested persons.<sup>3</sup> Comments were filed by the Public Representative,<sup>4</sup> and jointly by Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. (Valpak).<sup>5</sup> Reply comments were filed by Valpak<sup>6</sup> and the Postal Service.<sup>7</sup>

## II. BACKGROUND

EDDM-R is a Standard Mail Flats experimental product that targets small- and medium-size businesses to encourage mail advertisements to potential local customers. Mailpieces must meet the preparation requirements of the Simplified Address option for Standard Mail Saturation Mail, be flat-shaped, and weigh less than 3.3 ounces. Neither a permit nor a mailing fee is required, but qualifying mail must be entered and paid for at a local Destination Delivery Unit and not exceed 5,000 pieces per delivery unit.

Request at 1.

The Postal Service explains that since EDDM-R service commenced on March 31, 2011, revenue has been approximately \$8.5 million, with more rapid growth in recent months. If demand continues to grow, revenue for FY 2012 will reach the \$10 million limitation before March 31, 2012. *Id.* at 2.

Pursuant to 39 U.S.C. § 3641(e), revenues from a test product may not exceed \$10 million in any year. Nonetheless, the Commission may exempt the test from that

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<sup>3</sup> Order No. 998, Notice and Order Concerning Request for Exemption from Revenue Limitation on the Market Test of Experimental Product, November 23, 2011.

<sup>4</sup> Comments of the Public Representative, December 5, 2011 (PR Comments).

<sup>5</sup> Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Initial Comments Regarding Request for Exemption from Revenue Limitation on Market Test of Experimental Product—Every Door Direct Mail Retail, December 5, 2011 (Valpak Comments).

<sup>6</sup> Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Reply Comments Regarding Request for Exemption from Revenue Limitation on Market Test of Experimental Product—Every Door Direct Mail Retail, December 12, 2011 (Valpak Reply Comments).

<sup>7</sup> Reply Comments of the United States Postal Service in Response to Order No. 998, December 12, 2011 (Postal Service Reply Comments).

limit, upon written application, not to exceed revenues of \$50 million in any year subject to an adjustment for inflation under 39 U.S.C. § 3641(g). The Commission shall approve the application for exemption if it determines under 39 U.S.C. § 3641(e)(2) that: (A) the product is likely to benefit the public and meet an expected demand; (B) the product is likely to contribute to the financial stability of the Postal Service; and (C) the product is not likely to result in unfair or otherwise inappropriate competition.

The Postal Service asserts EDDM-R is likely to benefit the public and meet an expected demand. In support, it points to widespread interest in the product, revenues of \$3.4 million in less than the first 2 months of FY 2012, and indications that 87 percent of revenue earned is from new customers. The Postal Service states that EDDM-R permits small- and medium-size businesses to communicate to customers at low cost in their marketing areas by mailing without permits or fees and by simplifying mail entry. *Id.* at 3.

The Postal Service contends that EDDM-R is likely to contribute to the financial stability of the Postal Service by promoting Standard Mail flats. *Id.* at 5. It states that EDDM-R revenue has been about \$8.5 million since its launch, and contribution to date has been approximately \$4.9 million based on Saturation Mail Flats cost coverage of 240 percent. It argues that this level of contribution helps maintain the Postal Service's financial stability. *Id.* at 4.

The Postal Service states EDDM-R is unlikely to result in unfair or inappropriate competition. All customers, including Mail Service Providers (MSPs), are eligible to participate in the program. EDDM-R does not eliminate or increase the cost to small-or medium-size businesses that use or may use MSP services, such as design, printing, and mail preparation and entry. Additionally, it asserts that the majority of EDDM-R revenue has been from new mailers. *Id.*

Further, the Postal Service contends that EDDM-R neither eliminates nor increases the cost to potential customers who already use, or have the option to use, MSPs or that use shared mail to establish a presence in the mail. It also asserts that non-mail options for advertising have remained competitive. It concludes that rather

than act as a substitute for other media, EDDM-R enhances businesses' ability to use mail as a part of a complete, integrated marketing plan, mainly because of its convenience. *Id.* at 5.

### III. COMMENTS OF THE PARTICIPANTS

*Public Representative.* The Public Representative does not oppose the Postal Service's Request for the revenue exemption. PR Comments at 7. He states that the data submitted by the Postal Service support the claim that EDDM-R has met an unfilled public need because there are so many new customers. *Id.* at 5. However, the Public Representative points out that without cost data, it is not possible to determine if EDDM-R will provide a net contribution, and given the small revenues involved in the program, it would be unlikely that EDDM-R will make a significant positive or negative financial contribution. *Id.* at 6. The Public Representative asserts that it is unlikely that EDDM-R has caused market disruption or has been a source of unfair competition because its footprint is small. *Id.* at 7.

*Valpak.* Valpak argues that the \$50 million exemption should not be granted, and that the Commission should reconsider the entire market test. Valpak Comments at 5. It asserts that there is not sufficient cost data available to determine if the product is likely to contribute to the financial stability of the Postal Service. *Id.* at 3. Valpak also asserts that there are indications that EDDM-R is presenting unfair and inappropriate competition, and that increasing the revenue limit to \$50 million will cause a larger disruption to the market place than the original \$10 million cap. *Id.* at 4. It also contends that the Postal Service is incurring costs through a special website and local seminars that it does not incur for other Standard Mail products. *Id.* at 5. Valpak urges the Commission to not only deny the requested waiver, but also reconsider the market test, as it does not believe EDDM-R is a significantly different product from those otherwise available. *Id.* at 5-6. Additionally, it states that the data collection reports submitted by the Postal Service thus far are inadequate to determine the effect of EDDM-R on the market. *Id.* at 6.

In its reply comments, Valpak urges the Commission to discount the Public Representative's opinion that the small size of the product makes it unlikely to bring great benefit or great harm to the Postal Service, its customers, or its competitors. Valpak Reply Comments at 2.

*Postal Service.* In its reply comments, the Postal Service argues that the Commission has already determined that EDDM-R meets the standards to qualify for a market test, and that Valpak has not provided a sufficient argument to reverse that conclusion. Postal Service Reply Comments at 2. It contends that there has been no evidence presented showing that EDDM-R is adversely affecting existing mailers of shared mail. *Id.* at 5-6. It also provides additional support for the exemption, stating that 8,350 total customers have used EDDM-R; the average size of mailings has been 2,028 pieces; businesses have mailed an average of 2.5 times since April 2011; and as of December 5, 2011, the FY 2012 revenue has already exceeded \$5 million. *Id.* at 4-5.

#### IV. COMMISSION ANALYSIS

Valpak urges the Commission to reconsider the market test, arguing that EDDM-R is not a significantly different product. Valpak Comments at 5-6. The information presented by the Postal Service indicates that the product appeals to commercial entities not previously using the mail. The Commission is not persuaded that the Postal Service's experience under the market test vitiates its prior conclusion that EDDM-R is a significantly different product.

Valpak also contends that EDDM-R may present unfair or otherwise inappropriate competition. In support, it asserts that the EDDM-R is being marketed to include procurement of printing and mailing services. Further, it argues that the Postal Service is incurring promotion costs not otherwise incurred for other Standard Mail products. *Id.* at 4-5.

Valpak has not demonstrated that EDDM-R is resulting in unfair or inappropriate competition. Nor has it shown how an exemption for revenue in excess of \$10 million might disrupt the marketplace. Finally, allegations that the Postal Service is incurring

additional costs through its website and local seminars are not sufficient to demonstrate the experimental product causes unfair or inappropriate competition.<sup>8</sup>

Valpak and the Public Representative assert that the lack of cost data associated with the market test precludes a determination that EDDM-R is contributing to the financial stability of the Postal Service. Valpak Comments at 3; PR Comments at 6. The Postal Service argues that calculating contribution using the cost coverage of Standard Mail Saturation Flats is reasonable given the common use of the simplified address format. Further, it contends that it is reasonable to assume that average EDDM-R attributable costs are lower than average Saturation Flats cost due to limited handling and transportation costs and reduced acceptance costs. Postal Service Reply Comments at 4-5.

The statutory standard is whether the experimental product “is likely to contribute to the financial stability of the Postal Service.” 39 U.S.C. § 3641(e)(2)(B). For purposes of the market test, the Postal Service’s use of average Saturation Flats cost as a proxy appears to be reasonable. Nonetheless, concerns about the lack of cost data specific to the market test are valid. In subsequent quarterly data collection reports, the Postal Service should quantify additional costs incurred related to the EDDM-R product. In Order No. 687, the Commission noted that if the Postal Service proposed to make the experimental product permanent, “it must, in support of its filing, present data showing the impact of [EDDM-R] on carrier operations, *e.g.*, showing the frequency and number of routes requiring deferral of delivery of one or more bundles of Standard Mail when more than three bundles are available for delivery on that route.” Order No. 687 at 13. Information on advertising or other specific costs related to the proposed new product will also have to be presented at that time.

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<sup>8</sup> In response to Valpak’s anecdotal claim that some EDDM-R mailings have exceeded the volume maximum (5,000 pieces), the Postal Service avers that it has not waived the limit and that “there is no evidence the system is being ‘gamed.’” Postal Service Reply Comments at 6.

In sum, Valpak has not presented sufficient reasons to reject the Postal Service's request for an exemption from the revenue limit or to cancel the market test authorization.

*It is ordered:*

The Postal Service's request for an exemption from the \$10 million annual revenue limitation on the market test Every Door Direct Mail Retail is granted.

By the Commission.

Shoshana M. Grove  
Secretary